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**M E M O R A N D U M**

**To:** Debra Raeder, Arizona Governor's Office of Education Innovation  
**From:** Ryan Reyna, Education Division  
**Re:** Examples of Performance Funding in K-12

This memo is in response to your request for more information on the performance funding components in place in three states' finance systems (AR, IN and WY). I have also included reference to three other state initiatives that, while outside of the specific finance model, may be of interest to Arizona given the focus of each initiative on connecting funding to performance.

**State Finance Models**

After reviewing the finance systems in Arkansas, Indiana, and Wyoming, it is clear that each state has used dollars to prioritize the initiatives or ideas that are of greatest interest to state policymakers. In both Arkansas and Indiana, the state has provided additional incentive funds for the numbers of high performing students. In contrast, Wyoming does not have a specific performance funding mechanism; rather, its funding model attempts to identify, based on professional judgments, the resources necessary for a "model" school that supports all students to operate, and provides districts with considerable spending flexibility. To date, similar evidence-based studies have been completed in a handful of states (including Arizona in [2004](#)), however no other states have moved to this model because it often results in increases in education funding that the state can not meet.

The following provides a short overview of each state's method of finance and how performance is (or is not) included.

**Arkansas**

The state uses a "modified foundation formula" model to fund its schools. This method is similar to a "foundation formula" model in which schools receive a base funding amount that is multiplied by a weight for each student, dependent on each student's unique characteristics. However, in Arkansas, the method for calculating base funding is unique. The state's foundation amount is equal to the amount of available school funding divided by the total number of students in the state.<sup>1</sup>

The state includes a performance component in one of the categorical funds available to schools. The Advanced Placement Incentive awards schools up to \$50 for each score of a three

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<sup>1</sup> Available school funding is equal to 98 percent of the local assessment on property multiplied by 25 mills plus 75 percent of miscellaneous state funds.

or better earned by a student on any Advanced Placement (AP) test or the equivalent on any International Baccalaureate (IB) Program Exam. Schools must utilize the funds awarded from students' scores on the AP tests in the schools' AP program and funds awarded from students' scores on the IB tests in the schools' IB program. The Legislature appropriated \$825,000 for this program in the 2011-12 school year.

### **Indiana**

The state uses a "foundation formula" model to fund its schools. As mentioned above, this method provides for a base funding amount that is multiplied by a weight for each student. In Indiana, as in most states, higher funding is provided for low income students and English language learners. Above the base funding, the state provides an additional six categorical funding streams, of which two are connected to performance.

The Academic Honors Grant provides each district and charter school \$900 for each student who received an academic honors diploma in the previous school year. The Career Technical Education Grant distributes monies to districts and charter schools based on labor market demand and wage data. For example, districts receive \$450 per student credit hour in CTE areas that have a more than moderate labor market need and high wages, whereas districts only receive \$225 per student credit hour in CTE areas that have less than moderate labor market need and moderate wages. This tiered payment structure creates an incentive for schools to connect their programmatic offerings with labor market needs defined by the Department of Workforce Development.

While not specific to the funding system, the state has another education performance incentive in place. In 2009, the Department of Education created the Indiana Graduation Rate Performance incentive, which is funded through administrative and operational efficiencies within the Department. The competitive program offers cash incentives for the schools that demonstrate the greatest annual growth in graduation rates. Indiana public high schools with more than 300 students are eligible for one of ten \$20,000 awards. Indiana public high schools with fewer than 300 students are eligible for one of two \$10,000 awards. The building principal and corporation superintendent of each winning school receives the funds and may distribute the cash awards to staff members whose work was critical to achieving the graduation rate increases. The principal may receive no more than \$5,000 of the award amount.

### **Wyoming**

Since the 2006-07 school year, the state has used an "evidence-based" model to fund its schools, which is not very common nationally. Developed by two well-known school finance professors, Lawrence Picus and Allan Odden, the evidence-based model uses Professional Judgment Panels, or teams of educators and administrators, to identify the "basket of educational goods and services" needed to serve all students in meeting the state's standards and estimating the costs associated with them. In general, the model relies on the following "evidence-based" approaches to education as its basis for determining resource needs:

- small class sizes in all elementary and secondary schools;
- teacher specialists to provide programs in art, music and physical education;
- planning and collaboration time for teachers;
- strategies to help students who are struggling in the regular education program including tutoring resources, extended day and summer school programs and additional pupil support personnel;
- a comprehensive professional development strategy that includes instructional facilitators; and,
- resources to pay teachers for intensive summer planning and training institutes and funds to purchase other professional development resources such as consultants and research materials.

In addition, like most states, the Wyoming funding model makes a number of adjustments to compensate for the additional per pupil costs associated with the operation of small schools and small school districts. The funding that each district receives is a function of the components of the education resource block grant model and the characteristics of the schools and students within a particular district. The block grant determines the amount available to the district, but it does not determine how that funding is spent. Wyoming also makes funds available for summer school programs, extended day programs, and instructional facilitators through categorical programs to ensure districts implement these strategies.

For more information regarding Wyoming's use of an evidence-based funding model, and the process in place to recalibrate it over time, read [Recalibration of the Wyoming Funding Model](#).

### **Other Funding Tied to Performance**

#### **Oregon**

In 2011, the state created the Oregon Education Investment Board (OEIB), which is chaired by the Governor. The OEIB oversees an effort to create a seamless, unified system for investing in and delivering public education from early childhood through high school and college. The [legislation](#) provided the OEIB with authority over all education funding. It is up to the Board and appointed funding teams to provide recommendations to the Governor on how to allocate funds to meet the state's goal of 40 percent of Oregonians having a bachelor's degree or higher, an additional 40 percent with an Associate's degree and 20 percent with at least a high school diploma.

Subsequent [legislation](#) required all K-12 school districts, education service districts, community colleges, the university system and individual universities, and the Oregon Health Sciences University enter into an achievement compact with the Board. The compacts identify a small set of performance measures that are aligned to the 40-40-20 goal. In the future, the state plans to tie performance, as defined on the education compacts, to funding.

#### **Minnesota**

Beginning in fiscal year 2013, school districts can receive [Literacy Incentive Aid](#) based on a combination of (1) the percentage of students in each building that meet or exceed proficiency on the third grade reading assessment and (2) the percentage of students at that school making medium or high growth on the fourth grade reading assessment. Approximately \$50 million has been appropriated for this performance incentive.

#### **Texas**

In 2008, the state created the Collaborative Dropout Reduction Pilot Program ([TX Administrative Code §102.1055](#)), which provides eligible entities with grants to identify and recruit students who have dropped out. Districts, nonprofit organizations, or education service centers receive financial incentives of up to \$2,000 per student above base state funding when a student meets certain achievement benchmarks, such as progressing to the next grade, gaining advanced technical credit, or earning a high school diploma. Larger monetary incentives are offered to encourage terminal outcomes, such as graduation.